

FDIC State Profile

Spring 2006

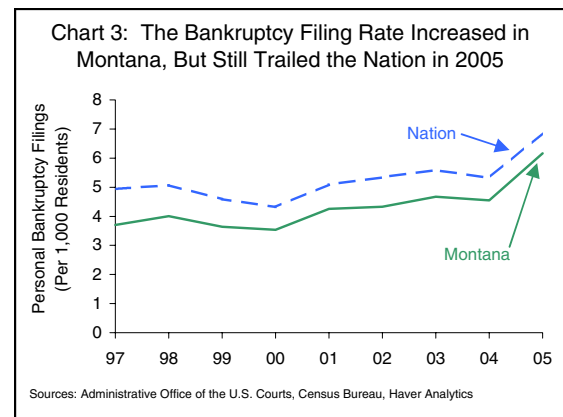
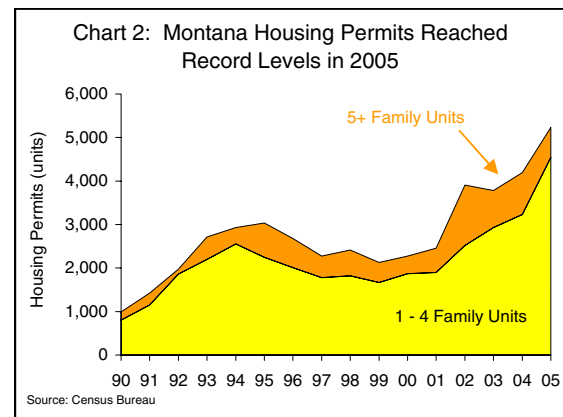
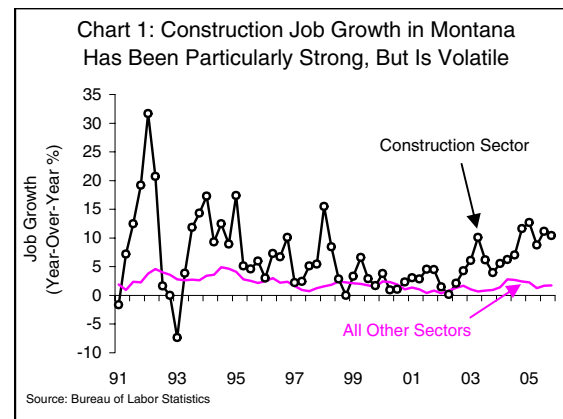
Montana

Montana's economy remained strong and added jobs faster than the nation.

- Year-over-year job growth in Montana remained stable at 2.3 percent in fourth quarter 2005, ranking Montana 14th among the states and ahead of the national pace.
- Population growth drove job gains in the state's construction industry, which reported 10.4 percent growth in fourth quarter 2005, compared to just 1.7 percent growth in all other sectors (see Chart 1). Support sectors like education/health and business services also added a significant number of new jobs.
- Many of new jobs were added in small markets such as **Bozeman** and **Kalispell**, which offer attractive quality-of-life and employment opportunities.
- Forecasts indicate that Montana job gains may accelerate in 2006 as the state benefits from strength in the energy sector.¹
- Commodity prices and weather conditions were favorable during 2005, but rising energy costs and interest rates could pressure the state's farm sector.

Housing market conditions remained solid.

- In-migration supported a record level of housing permits in 2005 (see Chart 2). Year-over-year home price gains in the state accelerated to 14.6 percent in fourth quarter 2005, outpacing the national rate. However, rising interest rates may weigh on housing markets going forward.
- Innovative mortgages and investors also may be influencing housing demand.² Interest-only and negative amortization loans accounted for 31 percent of non-prime mortgage originations in Montana during the first 11 months of 2005. During the same period, investors and second-home purchasers accounted for 23 percent of Montana Alt-A mortgage originations.



¹Forecast data from Moody's Economy.com.

²Based on subprime and Alt-A private mortgage securitizations tracked by LoanPerformance. Alt-A loans include mortgages that have near-prime credit quality, lack full loan documentation, or are secured by investor properties.

Montana consumers face increasing pressure.

- Higher energy costs, which likely will persist in 2006, may burden household budgets as more than 85 percent of homes in the state are heated using natural gas or electricity.³
- Also, rising interest rates and minimum credit card payments could pressure some consumers.
- Similar to national trends, personal bankruptcy filings in Montana increased in 2005, rising to 6.2 filings per thousand residents, in large part because of new bankruptcy legislation that took effect in October 2005 (see Chart 3).
- Forecasts indicate that the state's filing rate may decline in 2006 but then drift upward in 2007.⁴

Commercial real estate (CRE) loan concentrations increased in Montana.

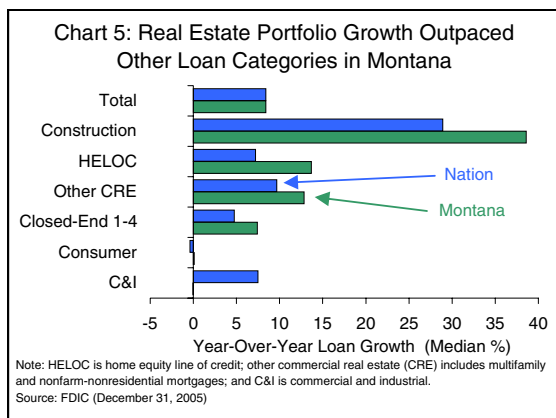
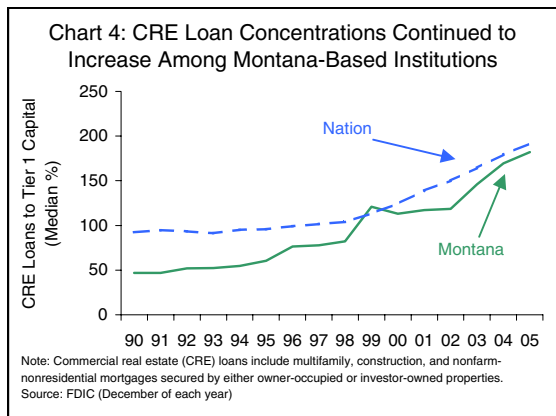
- Montana-based institutions reported a median CRE loan⁵-to-Tier 1 capital ratio of 182 percent, comparable to nationwide concentrations, but up noticeably over the past decade (see Chart 4).
- Increases in traditionally higher-risk construction and development (C&D) loans contributed to the trend and reflect rising permit activity in the state. C&D loans increased to 39 percent of Tier 1 capital, exceeding year-earlier and nationwide medians.
- CRE borrowers had more trouble meeting loan payments in late 2005 compared to one-year ago. Median past-due CRE loans increased to 1.29 percent of total CRE loans, the highest ratio nationally. Fortunately, past-due CRE levels tend to be much lower in western Montana, where CRE supports a larger share of lending.⁶

Rising interest rates boosted net interest margins (NIMs) but tempered investment portfolio values and loan growth.

- Earnings among Montana-based institutions remained strong; the median fourth quarter pretax return on asset ratio of 1.79 percent ranked fifth nationally. Wider NIMs more than offset modest increases in overhead and provision expense.
- Because rising interest rates reduced investment portfolio values, less than 4 percent of Montana-based banks used securities gains to boost fourth quarter earnings, down

from 22 percent of banks in late 2004. Investment portfolios, which represent an important 20 percent of balance sheets, may be vulnerable to additional pricing pressure should interest rates rise further.

- Led by stronger commercial and industrial and 1–4 family mortgage performance, past-due loan levels improved year-over-year to 1.99 percent, but still ranked third highest among the states.
- Similar to nationwide trends, annual loan growth in Montana slowed to 8.4 percent. Construction, home equity, and other real estate-related portfolios outpaced other categories (see Chart 5).
- Loan demand has been exceeding core deposit growth. As a result, the percentage of Montana institutions using brokered deposits increased from 19 percent one year ago to 32 percent at year-end 2005.



³Forecast data from the Energy Information Administration's 2006 Annual Energy Outlook.

⁴Forecast filing rate calculated using Moody's Economy.com forecast data.

⁵Commercial real estate loans include construction, multifamily, and nonfarm-nonresidential mortgages.

⁶Western Montana is defined as a 15-county area that includes the Butte, Helena, Kalispell, and Missoula markets.

Montana at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.3%	2.3%	3.0%	2.6%	1.2%
Manufacturing (5%)	-1.0%	0.9%	3.2%	1.1%	-5.2%
Other (non-manufacturing) Goods-Producing (8%)	9.9%	10.5%	11.6%	9.4%	5.1%
Private Service-Producing (66%)	2.2%	2.4%	2.7%	2.5%	1.3%
Government (21%)	0.3%	-1.0%	0.8%	1.1%	1.2%
Unemployment Rate (% of labor force)	3.9	4.0	4.2	4.3	4.4

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	7.0%	7.9%	6.4%	5.5%
Single-Family Home Permits	70.1%	63.2%	23.1%	4.0%	11.4%
Multifamily Building Permits	-53.4%	-39.2%	33.3%	20.3%	-17.9%
Existing Home Sales	9.8%	8.2%	-4.1%	4.3%	2.7%
Home Price Index	14.6%	12.5%	11.0%	10.4%	6.4%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	7.70	6.32	3.66	4.54	4.67

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	81	82	80	80	80
Total Assets (in millions)	15,916	15,598	14,644	14,644	13,534
New Institutions (# < 3 years)	3	4	2	2	4
Subchapter S Institutions	25	25	24	24	23

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.99	2.08	2.21	2.21	2.26
ALLL/Total Loans (median %)	1.40	1.30	1.39	1.39	1.46
ALLL/Noncurrent Loans (median multiple)	1.49	1.44	1.57	1.57	1.37
Net Loan Losses / Total Loans (median %)	0.04	0.01	0.09	0.09	0.11

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.58	9.79	9.15	9.15	9.16
Return on Assets (median %)	1.36	1.43	1.25	1.23	1.24
Pretax Return on Assets (median %)	1.79	2.13	1.71	1.80	1.69
Net Interest Margin (median %)	4.95	4.95	4.82	4.63	4.57
Yield on Earning Assets (median %)	6.81	6.75	6.11	6.05	6.19
Cost of Funding Earning Assets (median %)	1.86	1.75	1.33	1.27	1.54
Provisions to Avg. Assets (median %)	0.13	0.10	0.11	0.13	0.18
Noninterest Income to Avg. Assets (median %)	0.65	0.61	0.64	0.69	0.74
Overhead to Avg. Assets (median %)	3.19	2.88	3.15	2.91	2.98

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	66.8	70.1	65.7	65.7	61.3
Noncore Funding to Assets (median %)	15.7	17.8	14.4	14.4	14.0
Long-term Assets to Assets (median %, call filers)	13.6	14.0	14.5	14.5	16.1
Brokered Deposits (number of institutions)	26	28	15	15	10
Brokered Deposits to Assets (median % for those above)	3.7	4.6	3.8	3.8	5.6

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	102.7	107.6	116.6	116.6	112.6
Commercial Real Estate	181.9	174.9	169.6	169.6	146.2
<i>Construction & Development</i>	39.0	35.0	28.1	28.1	18.7
<i>Multifamily Residential Real Estate</i>	0.9	1.5	1.4	1.4	1.2
<i>Nonresidential Real Estate</i>	120.6	118.8	128.3	128.3	121.5
Residential Real Estate	103.2	109.9	112.3	112.3	91.9
Consumer	48.1	49.8	52.6	52.6	55.3
Agriculture	86.3	105.9	91.7	91.7	96.7

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Billings, MT	12	1,966	< \$250 million	66 (81.5%)
Missoula, MT	13	1,278	\$250 million to \$1 billion	13 (16%)
Great Falls, MT	10	931	\$1 billion to \$10 billion	2 (2.5%)
			> \$10 billion	0 (0%)